

**Lake City Area Schools
Lake City, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Lake City Area Schools
Lake City, Michigan
BOARD OF EDUCATION
June 30, 2006

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Lake City Area Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Lake City Area Schools
Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake City Area Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake City Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lake City Area Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2006 on our consideration of Lake City Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake City Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 11, 2006

Lake City Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This section of the annual financial report presents management's discussion and analysis of the financial performance for the fiscal year ended June 30, 2006 and is a requirement of GASB 34. This discussion and analysis is intended to be read in conjunction with the District's financial statements.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-wide (District-wide) and Fund-level financial statements.

District-wide Financial Statements:

District-wide financial statements provide information about the activities of the entire school district. They present an overall view of the District's finances, reporting the District's assets and liabilities both short and long term-basis, regardless if they are "currently available" or not. District-wide financial statements are reported on a full accrual basis.

Fund-level Financial Statements:

Fund-level financial statements are reported on a more detail level than district-wide statements. Fund-level statements provide information on the District's most significant funds and are reported on a modified accrual basis. Only those assets that are "measurable" and "available" are reported on a modified accrual basis. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. In the state of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are classified as Nonmajor Governmental Funds on the financial statements and include the Special Revenue Funds, which are comprised of Food Service and Athletics; the Debt Service and the Capital Projects Funds.

Statement of Fiduciary Net Assets:

The Statement of Fiduciary Net Assets presents financial information about resources for which the District acts solely as an agent for the benefit of students and parents. These activities are excluded from the District's other financial statements because as a fiduciary, the District is unable to use these assets for its operations. The school district's responsibility for assets reported in the Statement of Fiduciary Net Assets is to ensure the funds are used for their intended purposes.

Summary of Net Assets:

The following table summarizes the District's net assets for the fiscal year ended June 30, 2006 with comparative information for June 30, 2005.

**Condensed Statement of Net Assets
Year Ended June 30, 2005 and 2006**

	Governmental Activities	
	2005	2006
Assets		
Current Assets	\$ 3,707,878	\$ 3,811,337
Capital Assets, net of accumulated depreciation	<u>4,948,872</u>	<u>4,796,295</u>
Total Assets	8,656,750	8,607,632

Lake City Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Condensed Statement of Net Assets
Year Ended June 30, 2005 and 2006 - continued

	Governmental Activities	
	2005	2006
Liabilities		
Current Liabilities	\$ 1,721,228	\$ 1,634,531
Long-term Liabilities	<u>3,232,032</u>	<u>2,591,491</u>
Total Liabilities	4,953,260	4,226,022
Net Assets		
Invested in capital assets, net of related debt	1,377,959	1,791,468
Restricted for debt service	49,535	78,890
Unrestricted	<u>2,275,996</u>	<u>2,511,252</u>
Total Net Assets	<u>\$ 3,703,490</u>	<u>\$ 4,381,610</u>

Analysis of Financial Position:

At the end of the current fiscal year, Lake City Area Schools was able to report a positive balance in net assets for the school district. This means that if the District liquidated all of its assets and all the bills were paid as of June 30, 2006, including all noncurrent liabilities (compensated absences; for example), there would be over \$4.3 million in total net assets remaining.

Results of Operations:

For the fiscal years ended June 30, 2006 and 2005, the District-wide results of operations were:

Condensed Statement of Activities
Year Ended June 30, 2005 and 2006

	Governmental Activities	
	2005	2006
Revenues:		
Program Revenues		
Charges for Services	\$ 207,319	\$ 226,472
Operating grants	1,471,641	1,512,093
Capital grants	7,383	27,212
General Revenues		
Property Taxes	2,749,236	2,917,844
State unrestricted foundation aid	5,919,499	5,991,344
Other	<u>260,950</u>	<u>387,484</u>
Total Revenues	10,616,028	11,062,449
Expenses:		
Instruction	5,684,737	5,758,077
Support services	3,224,104	3,401,942
Food service	487,626	513,192
Athletics	310,070	328,098
Interest on long-term debt	123,118	107,428
Unallocated depreciation	<u>279,817</u>	<u>275,592</u>
Total Expenses	<u>10,109,472</u>	<u>10,384,329</u>
Increase in Net Assets	<u>\$ 506,556</u>	<u>\$ 678,120</u>

Lake City Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Analysis of Results of Operations:

During fiscal year ended June 30, 2006, the District's net assets increased by \$678,120. Several factors which help cause the increase are discussed in the following sections.

A. Governmental Fund Operating Results

The District's revenues from governmental fund operations exceeded expenditures by \$222,311 for the fiscal year ended June 30, 2006 mainly due to the revenues exceeding capital project expenditures. Further discussion of the District's operating results is available in the section entitled "Results of 2005-06 Operations" following this section.

B. Capital Outlay in Excess of Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, the amount of depreciation expense and assets disposed of exceeded the District's investment in new or replaced assets. The District's overall net assets were decreased by \$152,577, calculated as the difference between new capital investments (\$182,575), depreciation allocated against the useful lives of district assets (\$275,592) and the net disposal of assets (\$59,560). The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, district assets depreciated in the amount of \$275,592. This amount is reflected as Unallocated Depreciation on the Statement of Activities.

C. Long-Term Debt Activities

The District reduced its long-term bonded debt obligation during 2005-2006 by making a principal payment in the amount of \$560,000. Other long-term debt (sewer assessments and Durant Bonds) was reduced by \$2,594 and \$3,492, respectively.

D. Other Noncurrent Liabilities

Other noncurrent liabilities (severance pay) decreased by \$28,208 for the year ended June 30, 2006. This was a result of the retirements of several employees.

Results of 2005-2006 Operations

During fiscal year ended June 30, 2006, the District's net assets increased by \$678,120 at the district-wide, full accrual level. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the cost related to educating the students of the Lake City Area Schools such as: Salaries and benefits for Teachers, Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers, and other support positions; teaching supplies, employee training, utilities, building maintenance supplies and miscellaneous expenses needed to run the District.

The District's revenues for General Fund operations exceeded expenditures by \$32,698 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, has a fund balance of \$2,261,008 or 23.25% of expenditures and other financing uses for the 2005-2006 fiscal year. The District had a net increase in total expenditures and other financing uses of \$261,512 when comparing the two fiscal years.

B. Debt Service Funds Operations

The Debt Service Funds are set up to collect taxes and pay annual debt payments. At June 30, 2006, the Debt Service Funds had \$102,704 in fund equity available for the November 1, 2006 bond payment.

Lake City Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>6/30/2005</u>	Principal Payments	Principal Balance <u>6/30/2006</u>
Durant Bonds	\$ 46,088	\$ 3,492	\$ 42,596
2004 Refunding Bonds	<u>3,500,000</u>	<u>560,000</u>	<u>2,940,000</u>
	<u>\$ 3,546,088</u>	<u>\$ 563,492</u>	<u>\$ 2,982,596</u>

The District also had two (2) sewer assessments payables totaling \$22,231 outstanding at June 30, 2006. The payments for these debts are paid annually from the General Fund. The District also had severance pay outstanding at June 30, 2006, which totaled \$216,154.

C. School Service Funds

The Lake City Area Schools also has school service funds that include the following:

The Food Service Fund is a fund that reports the food service program activities. In 2005-2006 the Food Service Fund revenues exceeded expenditures by \$27,441. The fund balance for Food Service as of June 30, 2006 was \$62,590. The revenues exceeded expenditures because of increased participation and tight control of expenditures.

The Athletic Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation cost is accounted for in the General Fund. In 2005-2006 the Athletics Fund had revenues and expenditures of \$328,167 and \$328,098, respectively. Revenues exceed expenditures by \$69 and added to the fund balance for an ending balance of \$78. The General Fund made contributions to the Athletic Fund in the amount of \$292,511 and the fund had gate receipts and participation fees in the amount of \$35,656.

D. Net Investments in Capital Assets

The District's net investment in capital assets decreased by \$152,577 during the fiscal year. This can be summarized as follows:

	Balance <u>July 1, 2005</u>	Additions	Deletions	Balance <u>June 30, 2006</u>
Capital assets	\$ 9,613,861	\$ 182,575	\$ 108,680	\$ 9,687,756
Less: Accumulated depreciation	<u>(4,664,989)</u>	<u>(275,592)</u>	<u>(49,120)</u>	<u>(4,891,461)</u>
Net Investment in Capital assets	<u>\$ 4,948,872</u>	<u>\$ (93,017)</u>	<u>\$ 59,560</u>	<u>\$ 4,796,295</u>

Lake City Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

IMPORTANT ECONOMIC FACTORS

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count.
- c. The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Lake City Area Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

C. Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 1,213 students as compared to 1,212 for 2004-2005. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006	1,213	+1
2004-2005	1,212	-12
2003-2004	1,224	-48
2002-2003	1,272	-44
2001-2002	1,316	-12

Because economic conditions in Northern Michigan remain unchanged, the District is closely monitoring any change in student enrollment.

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. An election is held annually to reestablish the 18 mills and prevent a Headlee Rollback. Under Michigan law, the operating tax levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue collected for 2005-2006 fiscal year was \$2,229,486. This was less than the original levy due to unpaid personal property tax. The non-homestead tax levy increased by 6.2% over the prior year.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-2006 the District's debt millage levy was 2.8 mills that generated revenue of \$687,405.

Lake City Area Schools
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Analysis of Original Budget, Final Budget, and Actual Results:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Lake City Area Schools amends its budget periodically during the school year. The June 2006 budget amendment was the final budget for the fiscal year.

Changes from Original Budget, Final Budget and Actual:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Final & Original Budget</u>	<u>Actual & Final Budget</u>
Total Revenues and Other Financing Sources	\$ 9,494,179	\$ 9,855,460	\$ 9,756,975	3.8%	(1.0%)
Total Expenditures and Other Financing Uses	\$10,176,092	\$10,211,226	\$ 9,724,277	.34%	4.8%

Revenues:

The District's final budget for revenues and other financing sources was \$361,281 or 3.8% higher than the original budget projections. The original budget allowed for a decline in enrollment, which did not occur. The District received \$6,875 per student and enrollment stayed flat at 1,213 for the 2005-2006 year. Both of these events increased actual state aid foundation revenues by \$218,975. The increase in interest rates on available cash balances, an increase in grant allocations and a continued receipt of an increase in special education ISD millage monies made up a majority of the remaining change of \$142,306.

Expenditures:

The District's final budget for expenditures and other financing uses was \$35,134 or .34% higher than the original budget projections. A significant factor in the expenditure increase was the unanticipated increase in the cost of transportation fuel. The District not only experienced an increase in fuel costs but it was also necessary to add an additional bus run to accommodate an increase in students riding the bus instead of being transported by parents (\$29,852).

Contacting the District's Financial Management:

Management discussion and analysis documents are prepared to provide the District's constituents with a general overview of the District's financial position. Question or requests for additional information can be directed to the Business Department of Lake City Area Schools, 710 E. Mitchell Street, PO Box 900, Lake City, Michigan 49651.

BASIC FINANCIAL STATEMENTS

Lake City Area Schools
STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,549,219
Due from other governmental units	1,249,617
Inventories	7,501
Prepays	5,000
	<hr/>
Total current assets	3,811,337
Noncurrent assets	
Capital assets not being depreciated	382,782
Capital assets, net of accumulated depreciation	4,413,513
	<hr/>
Total noncurrent assets	4,796,295
	<hr/>
TOTAL ASSETS	8,607,632
LIABILITIES	
Current liabilities	
Accounts payable	28,607
Accrued payroll	570,661
Other accrued liabilities	242,875
Accrued interest payable	18,003
Deferred revenue	79,082
Current portion of deferred charges	12,001
Current portion of severance payable	72,051
Current portion of long-term debt	611,251
	<hr/>
Total current liabilities	1,634,531
Noncurrent liabilities	
Deferred charges	48,001
Accrued interest payable	5,811
Accrued severance payable	144,103
Noncurrent portion of long-term debt	2,393,576
	<hr/>
Total noncurrent liabilities	2,591,491
	<hr/>
TOTAL LIABILITIES	4,226,022
NET ASSETS	
Invested in capital assets, net of related debt	1,791,468
Restricted for debt service	78,890
Unrestricted	2,511,252
	<hr/>
TOTAL NET ASSETS	\$ 4,381,610
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See accompanying notes to financial statements.

Lake City Area Schools

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	Governmental Activities
Governmental activities				
Instruction	\$ 5,758,077	\$ -	\$ 781,818	\$ (4,976,259)
Supporting services	3,401,942	24,723	356,761	(3,013,244)
Food Service	513,192	166,093	373,514	26,415
Athletics	328,098	35,656	-	(277,510)
Interest on long-term debt	107,428	-	-	(102,362)
Unallocated depreciation	275,592	-	-	(275,592)
	<u>\$ 10,384,329</u>	<u>\$ 226,472</u>	<u>\$ 1,512,093</u>	<u>(8,618,552)</u>
TOTAL GOVERNMENTAL ACTIVITIES			<u>\$ 27,212</u>	
General revenues				
Property taxes				2,917,844
State school aid - unrestricted				5,991,344
Interest				80,598
Special Education county allocation				274,972
Miscellaneous				<u>31,914</u>
				<u>9,296,672</u>
TOTAL GENERAL REVENUES				
CHANGE IN NET ASSETS				678,120
Net assets, beginning of year				<u>3,703,490</u>
Net assets, end of year				<u>\$ 4,381,610</u>

See accompanying notes to financial statements.

Lake City Area Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Capital Projects
ASSETS		
Cash and cash equivalents	\$ 1,924,230	\$ 463,732
Due from other funds	-	-
Due from other governmental units	1,249,617	-
Inventories	-	-
Prepays	5,000	-
TOTAL ASSETS	\$ 3,178,847	\$ 463,732
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 21,732	\$ -
Accrued payroll	570,661	-
Other accrued liabilities	242,875	-
Due to other funds	3,489	-
Deferred revenue	79,082	-
TOTAL LIABILITIES	917,839	-
FUND BALANCE		
Reserved for		
Inventories and prepaids	5,000	-
Debt service	-	-
Unreserved		
Designated for subsequent year's expenditures	437,211	-
Undesignated, reported in		
General fund	1,818,797	-
Special revenue funds	-	-
Capital project fund	-	463,732
TOTAL FUND BALANCE	2,261,008	463,732
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,178,847	\$ 463,732

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 161,257	\$ 2,549,219
3,489	3,489
-	1,249,617
7,501	7,501
-	5,000
<u>\$ 172,247</u>	<u>\$ 3,814,826</u>

\$ 6,875	\$ 28,607
-	570,661
-	242,875
-	3,489
-	79,082

6,875	924,714
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7,501	12,501
102,704	102,704
9,910	447,121
-	1,818,797
45,257	45,257
-	463,732

<u>165,372</u>	<u>2,890,112</u>
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<u>\$ 172,247</u>	<u>\$ 3,814,826</u>
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Lake City Area Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 2,890,112

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 9,687,756	
Accumulated depreciation is	<u>(4,891,461)</u>	
		4,796,295

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Deferred charges - net of current amortization	(60,002)	
Bonds and loans payable	(3,004,827)	
Accrued interest payable	(23,814)	
Severance pay	<u>(216,154)</u>	
		<u>(3,304,797)</u>

Net assets of governmental activities \$ 4,381,610

See accompanying notes to financial statements.

Lake City Area Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Capital Projects
REVENUES		
Local sources	\$ 2,347,241	\$ 28,910
State sources	6,704,237	-
Federal sources	430,525	-
OTHER FINANCING SOURCES		
Transfers from other funds	-	200,000
County special education allocation	274,972	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	9,756,975	228,910
EXPENDITURES		
Current		
Instruction	5,786,285	-
Supporting services	3,442,887	-
Food service	-	-
Athletics	-	-
Debt service	2,594	-
Capital outlay	-	94,070
OTHER FINANCING USES		
Transfers to other funds	492,511	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	9,724,277	94,070
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	32,698	134,840
Fund balances, beginning of year	2,228,310	328,892
Fund balances, end of year	\$ 2,261,008	\$ 463,732

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals Governmental Funds
\$ 897,984	\$ 3,274,135
40,495	6,744,732
338,085	768,610
292,511	492,511
-	274,972
1,569,075	11,554,960
-	5,786,285
-	3,442,887
513,192	513,192
328,098	328,098
673,012	675,606
-	94,070
-	492,511
1,514,302	11,332,649
54,773	222,311
110,599	2,667,801
\$ 165,372	\$ 2,890,112

Lake City Area Schools

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

June 30, 2006

Net change in fund balances - total governmental funds \$ 222,311

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 182,575
Net effect of disposal of capital assets	(59,560)
Depreciation expense	<u>(275,592)</u>

Excess of depreciation expense and other charges over capital outlay	(152,577)
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Items resulting from the repayment of long-term debt and borrowing of long-term debt is reported as expenditures, other financing uses, and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings and other liabilities increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Deferred charges - net current year amortization	12,000
Debt principal retirement	<u>566,086</u>

578,086

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	2,092
Decrease in accrued severance pay	<u>28,208</u>

30,300

Change in net assets of governmental activities	\$ <u>678,120</u>
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See accompanying notes to financial statements.

Lake City Area Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 8,339	\$ 134,853
Investments	12,051	66,317
TOTAL ASSETS	<u>\$ 20,390</u>	<u>\$ 201,170</u>
LIABILITIES		
Due to individuals		
Athletic Boosters	\$ -	\$ 79,127
Band Boosters	-	21,903
Central Office	-	9,114
Elementary	-	3,490
Upper Elementary	-	8,549
Middle School	-	30,299
High School	-	48,688
TOTAL LIABILITIES	<u>-0-</u>	<u>\$ 201,170</u>
NET ASSETS		
Held in trust for scholarships	<u>\$ 20,390</u>	

See accompanying notes to financial statements.

Lake City Area Schools

Fiduciary Fund

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2006

	Private Purpose Trust Fund
ADDITIONS	
Investment earnings	
Interest	\$ 762
Contributions	864
Total additions	1,626
DEDUCTIONS	
Scholarships	88
CHANGE IN NET ASSETS	1,538
Net assets - beginning of year	18,852
Net assets - end of year	\$ 20,390

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lake City Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Lake City Area Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for each major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. Capital Projects Fund - The Capital Projects Fund is used to account for the acquisition of equipment and construction of facilities by the school district.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All unexpended appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

Lake City Area Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplemental appropriations were made during the year with the final amendments being approved June 14, 2006.

5. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds. Cash equivalents are recorded at market value.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2006, to be paid in July and August 2006. The total amount of \$1,249,617 due from other governmental units consists of \$1,186,269 and \$63,348 related to State Aid and grant and local programs, respectively.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Equipment and furniture	3 - 20 years
Vehicles	8 years

The District has no assets that would be classified as infrastructure assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003 through May 15, 2005 is shown as a noncurrent liability due to the State of Michigan deferring the payments during this time period until May 15, 2012.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

The District levies taxes of \$18 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$2.80 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. State Foundation Revenue - continued

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

16. County Special Education Revenue Allocation

The District continued to receive revenue based on excess funds remaining from a County-wide Special Education millage approved in prior years.

The millage, a one-half mill which was collected by Wexford-Missaukee Intermediate School District (WMISD), was approved to cover additional, unreimbursable special education costs not covered by grant programs. The amount available for Lake City Area Schools is based on the District's Taxable Value multiplied by the one-half mill. This amount is then used to cover the District's unreimbursable costs related to special education children served at WMISD. If there are any funds left after these unreimbursable costs are covered they are distributed to the District from WMISD. In any given year, the district may receive a one-half mill distribution or they may receive more or less than a one-half mill of this special education funding.

17. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

18. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

19. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal District obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$1,609,033 and the bank balance was \$1,901,833, of which \$358,599 was covered by federal depository insurance. The balance of \$1,543,234 was uninsured and uncollateralized. The District had \$100 of imprest cash on hand.

Lake City Area Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Investments

As of June 30, 2006, the District had the following investments:

<u>Investment type</u>	<u>Fair value</u>	<u>Bank Balance</u>	<u>Weighted Average Maturity (years)</u>
Uncategorized pooled investments	\$ <u>1,161,646</u>	\$ <u>1,161,646</u>	<u>Less than 12 months average</u>

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investment in the uncategorized pooled investment (the Michigan Liquid Asset Fund Plus) was rated AAA by Standard and Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 2,549,219	\$ 143,192	\$ 2,692,411
Investments	<u>-</u>	<u>78,368</u>	<u>78,368</u>
	<u>\$ 2,549,219</u>	<u>\$ 221,560</u>	<u>\$ 2,770,779</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

Lake City Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 382,883	\$ -	\$ 101	\$ 382,782
Capital assets being depreciated				
Buildings and additions	7,154,863	24,990	-	7,179,853
Equipment, furniture, and other assets	1,066,964	94,304	59,459	1,101,809
Vehicles	<u>1,009,151</u>	<u>63,281</u>	<u>49,120</u>	<u>1,023,312</u>
Subtotal of capital assets being depreciated	9,230,978	182,575	108,579	9,304,974
Less accumulated depreciation for:				
Buildings and additions	(3,491,354)	(136,064)	(-)	(3,627,418)
Equipment, furniture, and other assets	(500,002)	(50,254)	(-)	(550,256)
Vehicles	<u>(673,633)</u>	<u>(89,274)</u>	<u>(49,120)</u>	<u>(713,787)</u>
Subtotal	<u>(4,664,989)</u>	<u>(275,592)</u>	<u>(49,120)</u>	<u>(4,891,461)</u>
Net capital assets being depreciated	<u>4,565,989</u>	<u>(93,017)</u>	<u>59,459</u>	<u>4,413,513</u>
Capital assets, net	<u>\$ 4,948,872</u>	<u>\$ (93,017)</u>	<u>\$ 59,560</u>	<u>\$ 4,796,295</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due within One Year</u>
1984 Sewer Assessment	\$ 20,907	\$ -	\$ 2,323	\$ 18,584	\$ 2,323
1991 Sewer Assessment	3,918	-	271	3,647	271
2004 Refunding Bonds	3,500,000	-	560,000	2,940,000	605,000
1998 Durant Resolution Bonds	46,088	-	3,492	42,596	3,657
Severance Pay	<u>244,362</u>	<u>-</u>	<u>28,208</u>	<u>216,154</u>	<u>72,051</u>
	<u>\$ 3,815,275</u>	<u>\$ -0-</u>	<u>\$ 594,294</u>	<u>\$ 3,220,981</u>	<u>\$ 683,302</u>

Lake City Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$69,690 1984 Sewer Assessment dated August 1, 1984, due in annual installments of \$2,323 through August 1, 2013, with interest at 8.75 percent, payable annually.	\$ 18,584
\$7,440 1991 Sewer Assessment dated August 1, 1991, due in annual installments of \$271 through August 1, 2019, with interest at 8.75 percent, payable annually.	3,647
\$4,050,000 2004 Refunding Bonds dated March 30, 2004, due in annual installments ranging from \$340,000 to \$685,000 through May 1, 2011, with interest ranging from 2.50 to 5.00 percent, payable semi-annually	<u>2,940,000</u>
	<u>\$ 2,962,231</u>

Resolution Bonds

\$72,140 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$3,657 to \$17,644 with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>\$ 42,596</u>
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Advance Refunding - Prior

On March 4, 2004 the District defeased the 1993 Refunding Bonds, which is due and payable May 1, 2004 through May 1, 2013. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2004 Refunding Bonds in the amount of \$4,050,000 and contributed \$659,228 from the Debt Service Fund to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2007 through May 1, 2013 for the 1993 Refunding Bonds in the amount of \$3,590,000 are considered defeased.

Severance Pay - In recognition of services to the District, a severance payment is made to eligible employees according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2006, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

Lake City Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which have been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 146,261	\$ 54,532	\$ 200,793
Payroll taxes	<u>11,189</u>	<u>4,172</u>	<u>15,361</u>
	<u>\$ 157,450</u>	<u>\$ 58,704</u>	<u>\$ 216,154</u>

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>General Obligation Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	3,657	1,408	607,594	98,004
2008	3,832	1,234	647,594	67,527
2009	4,015	1,051	667,594	51,176
2010	4,206	860	687,594	32,683
2011	4,406	660	342,594	11,884
2012-2016	22,480	6,492	8,323	1,376
2017-2021	<u>-</u>	<u>-</u>	<u>938</u>	<u>186</u>
	<u>\$ 42,596</u>	<u>\$ 11,705</u>	<u>\$ 2,962,231</u>	<u>\$ 262,836</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006, are as follows:

Due to nonmajor funds from	
General Fund	<u>\$ 3,489</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

Lake City Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Capital Projects Fund from:

General Fund	<u>\$ 200,000</u>
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Transfers to nonmajor governmental funds from:

General Fund	<u>\$ 292,511</u>
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NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006, was \$5,861,170 of which \$5,063,535 was for members who have elected the MIP option; the District's total payroll was \$5,826,454.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Lake City Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006 the District is required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2006	\$ 197,626	\$ 937,759	\$ 1,135,385
2005	183,863	797,940	981,803
2004	180,929	708,703	889,632

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2006	4.0 %	16.0 %
2005	4.0	14.4
2004	4.0	13.0

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the District has set aside for specific purposes.

The following are the fund balance reserves as of June 30, 2006:

General Fund	
Reserved for inventories and prepaids	\$ <u>5,000</u>
Nonmajor governmental funds	
Reserved for inventories and prepaids	\$ 7,501
Reserved for debt service	<u>102,704</u>
	<u>\$ 110,205</u>

The following are the fund balance designations as of June 30, 2006:

General Fund	
Designated for subsequent year's expenditures	\$ <u>437,211</u>
Nonmajor governmental funds	
Designated for subsequent year's expenditures	<u>\$ 9,910</u>

Lake City Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

Governmental activities	
Restricted for debt service	\$ <u>78,890</u>

NOTE J: FLEXIBLE BENEFITS PLAN

In October, 1993, the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to reduce his/her salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by Lake City Area Schools.

NOTE K: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Lake City Area Schools, a nonplaintiff District, was awarded \$144,279 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

REQUIRED SUPPLEMENTARY INFORMATION

Lake City Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Local sources	\$ 2,334,375	\$ 2,362,950	\$ 2,347,241	\$ (15,709)
State sources	6,518,304	6,703,319	6,704,237	918
Federal sources	466,500	514,026	430,525	(83,501)
OTHER FINANCING SOURCES				
County special education allocation	<u>175,000</u>	<u>275,165</u>	<u>274,972</u>	<u>(193)</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	9,494,179	9,855,460	9,756,975	(98,485)
EXPENDITURES				
INSTRUCTION				
Basic programs				
Elementary	2,368,935	2,389,462	2,307,932	81,530
Middle school	1,277,695	1,266,202	1,229,172	37,030
High School	1,540,570	1,449,283	1,382,107	67,176
Summer School	<u>8,635</u>	<u>8,155</u>	<u>8,148</u>	<u>7</u>
Total basic programs	5,195,835	5,113,102	4,927,359	185,743
Added needs				
Special education	549,725	559,170	531,972	27,198
Compensatory education	<u>334,250</u>	<u>330,294</u>	<u>326,954</u>	<u>3,340</u>
Total added needs	<u>883,975</u>	<u>889,464</u>	<u>858,926</u>	<u>30,538</u>
TOTAL INSTRUCTION	6,079,810	6,002,566	5,786,285	216,281
SUPPORTING SERVICES				
Student services				
Guidance services	239,305	236,795	232,588	4,207
Health services	7,000	-	-	-0-
Social work services	<u>147,295</u>	<u>146,615</u>	<u>136,640</u>	<u>9,975</u>
Total student services	393,600	383,410	369,228	14,182
Instructional staff				
Improvement of instruction	97,405	99,038	87,336	11,702
Media services	<u>189,462</u>	<u>191,411</u>	<u>183,186</u>	<u>8,225</u>
Total instructional staff	286,867	290,449	270,522	19,927

Lake City Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
SUPPORTING SERVICES - CONTINUED				
General administration				
Board of education	\$ 91,010	\$ 93,660	\$ 47,634	\$ 46,026
Executive administration	212,545	210,010	200,699	9,311
Total general administration	303,555	303,670	248,333	55,337
School administration	740,810	740,390	716,814	23,576
Business				
Fiscal services	145,640	146,630	139,776	6,854
Other business services	28,175	40,885	40,794	91
Total business	173,815	187,515	180,570	6,945
Operations and maintenance	984,810	1,019,189	960,235	58,954
Transportation	551,345	610,997	560,795	50,202
Other supporting services				
Information services	146,480	152,015	136,390	15,625
TOTAL SUPPORTING SERVICES	3,581,282	3,687,635	3,442,887	244,748
DEBT SERVICE				
Principal retirement	2,600	2,600	2,594	6
TOTAL EXPENDITURES	9,663,692	9,692,801	9,231,766	461,035
OTHER FINANCING USES				
Transfers to other funds	512,400	518,425	492,511	25,914
TOTAL EXPENDITURES AND OTHER FINANCING USES	10,176,092	10,211,226	9,724,277	486,949
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(681,913)	(355,766)	32,698	388,464
Fund balance, beginning of year	2,228,310	2,228,310	2,228,310	-0-
Fund balance, end of year	<u>\$ 1,546,397</u>	<u>\$ 1,872,544</u>	<u>\$ 2,261,008</u>	<u>\$ 388,464</u>

OTHER SUPPLEMENTARY INFORMATION

Lake City Area Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue Funds		Debt Service Funds		Total
	Food Service	Athletics	Durant Bonds	2004 Refunding Bonds	
ASSETS					
Cash and cash equivalents	\$ 58,475	\$ 78	\$ -	\$ 102,704	\$ 161,257
Due from other funds	3,489	-	-	-	3,489
Inventories	7,501	-	-	-	7,501
TOTAL ASSETS	\$ 69,465	\$ 78	\$ -0-	\$ 102,704	\$ 172,247
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 6,875	\$ -	\$ -	\$ -	\$ 6,875
FUND BALANCES					
Reserved for					
Inventories	7,501	-	-	-	7,501
Debt service	-	-	-	102,704	102,704
Unreserved					
Designated for subsequent years expenditures	9,910	-	-	-	9,910
Undesignated, reported in Special revenue funds	45,179	78	-	-	45,257
TOTAL FUND BALANCES	62,590	78	-0-	102,704	165,372
TOTAL LIABILITIES AND FUND BALANCES	\$ 69,465	\$ 78	\$ -0-	\$ 102,704	\$ 172,247

Lake City Area Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

For the year ended June 30, 2006

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		
	<u>Food Service</u>	<u>Athletics</u>	<u>Durant Bonds</u>	<u>2004 Refunding Bonds</u>	<u>Total</u>
REVENUES					
Local sources	\$ 167,119	\$ 35,656	\$ -	\$ 695,209	\$ 897,984
State sources	35,429	-	5,066	-	40,495
Federal sources	338,085	-	-	-	338,085
OTHER FINANCING SOURCES					
Transfers from other funds	-	292,511	-	-	292,511
TOTAL REVENUES AND OTHER FINANCING SOURCES	540,633	328,167	5,066	695,209	1,569,075
EXPENDITURES					
Current					
Food service	513,192	-	-	-	513,192
Athletics	-	328,098	-	-	328,098
Debt service					
Principal retirement	-	-	3,492	560,000	563,492
Interest, fiscal and other charges	-	-	1,574	107,946	109,520
TOTAL EXPENDITURES	513,192	328,098	5,066	667,946	1,514,302
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	27,441	69	-0-	27,263	54,773
Fund balances, beginning of year	35,149	9	-	75,441	110,599
Fund balances, end of year	<u>\$ 62,590</u>	<u>\$ 78</u>	<u>\$ -0-</u>	<u>\$ 102,704</u>	<u>\$ 165,372</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Lake City Area Schools
Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake City Area Schools as of and for the year ended June 30, 2006, which collectively comprise Lake City Area Schools' basic financial statements, and have issued our report thereon dated July 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake City Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake City Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the use of the administration and Board of Education of Lake City Area Schools, the pass-through entities, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 11, 2006

Lake City Area Schools

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2006

Lake City Area Schools

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Lake City Area Schools
Lake City, Michigan

Compliance

We have audited the compliance of Lake City Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major Federal program for the year ended June 30, 2006. Lake City Area Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Lake City Area Schools' management. Our responsibility is to express an opinion on Lake City Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Lake City Area Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lake City Area Schools' compliance with those requirements.

In our opinion, Lake City Area Schools complied, in all material respects, with the requirements referred to above that are applicable to the major Federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Lake City Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Lake City Area Schools' internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake City Area Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated July 11, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lake City Area Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Lake City Area Schools, the pass-through entities, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 11, 2006

Lake City Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through State Department of Education				
E.S.E.A. Title I	84.010			
2004-05 Part A		0515300405	\$ 324,256	\$ 290,629
2005-06 Part A		0515300506	7,861	-
2005-06 Part A		0615300506	332,682	-
			664,799	290,629
Title V	84.298			
2005-06		0602500506	10,540	-
Technology Literacy Challenge Grants	84.318			
2005-06 Ed Tech		0542900506	2,110	-
2005-06 Ed Tech		0642900506	6,206	-
			8,316	-
Improving Teacher Quality	84.367			
2004-05		0505200405	97,160	88,139
2005-06		0505200506	156	-
2005-06		0605200506	97,142	-
			194,458	88,139
Drug-Free Program	84.186			
2005-06		0528600506	3,265	-
2004-05		0628600506	9,230	-
			12,495	-0-
TOTAL U.S. DEPARTMENT OF EDUCATION			890,608	378,768
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through State Department of Human Services				
Promoting Safe and Stable Families	93.556			
2004-05 Subpart 2 School Services		SFSC 02-57001-4	21,500	21,500
2005-06 Subpart 2 School Services		SFSC 06-57002-1	21,500	-
			43,000	21,500

<u>Restated Balance July 1, 2005</u>	<u>Cash Receipts In-Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2006</u>
<u>Accrued or (Deferred) Revenue</u>			<u>Accrued or (Deferred) Revenue</u>
\$ 59,276	\$ 92,902	\$ 33,626	\$ -0-
-	7,861	7,861	-0-
-	216,252	247,305	31,053
59,276	317,015	288,792	31,053
-	10,540	10,540	-0-
-	2,110	2,110	-0-
-	2,444	2,444	-0-
-0-	4,554	4,554	-0-
16,470	25,490	9,020	-0-
-	156	156	-0-
-	62,726	71,140	8,414
16,470	88,372	80,316	8,414
-	3,265	3,265	-0-
-	4,773	5,239	466
-0-	8,038	8,504	466
75,746	428,519	392,706	39,933
1,833	1,833	-	-0-
-	15,270	17,085	1,815
1,833	17,103	17,085	1,815

Lake City Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Pass through State Department of Community Health Medicaid Administrative Outreach	93.778	N/A	\$ 15,714	\$ -
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			58,714	21,500
U.S. DEPARTMENT OF HOMELAND SECURITY Passed through Michigan State Police SHSGP Part II (School Initiative)				
	97.004	N/A	\$ 5,020	\$ -
U.S. DEPARTMENT OF AGRICULTURE Passed Through State Department of Education				
School Breakfast Program	10.553 (e)(f)			
2004-05		051970	61,255	53,812
2005-06		061970	64,473	-
			125,728	53,812
National School Lunch Program	10.555 (e)(f)			
2004-05		051950,051960	219,684	192,063
2005-06		061950,061960	203,315	-
			422,999	192,063
Food Donation (a) (c)	10.550			
Entitlement commodities		57020	32,968	-
Bonus commodities		57020	2,265	-
			35,233	-0-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			583,960	245,875
TOTAL FEDERAL AWARDS			\$ 1,538,302	\$ 646,143

<u>Restated Balance July 1, 2005</u>	<u>Cash Receipts In-Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2006</u>
<u>Accrued or (Deferred) Revenue</u>			<u>Accrued or (Deferred) Revenue</u>
<u>\$ (9,209)</u>	<u>\$ 6,505</u>	<u>\$ 15,714</u>	<u>\$ -0-</u>
(7,376)	23,608	32,799	1,815
<u>\$ -</u>	<u>\$ 5,020</u>	<u>\$ 5,020</u>	<u>\$ -0-</u>
-	7,443	7,443	-0-
-	64,473	64,473	-0-
<u>-0-</u>	<u>71,916</u>	<u>71,916</u>	<u>-0-</u>
-	27,621	27,621	-0-
-	203,315	203,315	-0-
<u>-0-</u>	<u>230,936</u>	<u>230,936</u>	<u>-0-</u>
-	32,968	32,968	-0-
-	2,265	2,265	-0-
<u>-0-</u>	<u>35,233</u>	<u>35,233</u>	<u>-0-</u>
<u>-0-</u>	<u>338,085</u>	<u>338,085</u>	<u>-0-</u>
<u>\$ 68,370</u>	<u>\$ 795,232</u>	<u>\$ 768,610</u> ^(b)	<u>\$ 41,748</u>
	(d)	(g)	

Lake City Area Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Lake City Area Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Lake City Area Schools
Lake City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake City Area Schools, Michigan as of and for the year ended June 30, 2006, which collectively comprise Lake City Area Schools' basic financial statements and have issued our report thereon dated July 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake City Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education and administration of Lake City Area Schools, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 11, 2006

Lake City Area Schools

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings related to internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the National School Lunch (CFDA 10.555), and School Breakfast (CFDA 10.553) programs. The National School Lunch and School Breakfast programs (CFDA 10.555 and 10.553) are considered a cluster by the U.S. Department of Agriculture. Total Federal expenditures for the year ended June 30, 2006 for the major program was \$302,852, which is approximately 39 percent of total Federal expenditures. Based on the criteria of OMB Circular A-133, Lake City Area Schools qualified as a low-risk auditee for the year ended June 30, 2006.

The District had one (1) Type A program, the Child Nutrition Cluster (\$302,852), which included the School Breakfast program (CFDA 10.553) and National School Lunch program (CFDA 10.555). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Lake City Area Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.